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Japanese Trading Companies: Evolving Role in World Trade

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A Research Paper

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A Research Paper

This paper was prepared by of the Office of East Asian Analysis. Comments and queries are welcome and may be directed to the Chief, Northeast Asia Division, OEA, 25X1

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Japanese Trading Companies: Evolving Role in World Trade 25X1

Summary

Information available as of 1 September 1983 was used in this report.

Japan's general trading companies are at the center of Japanese global economic activity. Close ties to Japan's largest industrial and financial institutions, worldwide networks of offices, and strong links with Tokyo have helped to make the general trading companies a major force in expanding, developing, and protecting Japan's trade position:

- The top nine firms, with a total foreign trade turnover of roughly $350 billion in 1982, represent roughly 10 percent of world trade.
- These firms have also played a principal role in the rapid expansion of Japanese overseas investment, accounting for 40 percent of the actual outlays in the 1970s and 1980s and facilitating several billion dollars more. 25X1

Their present position has been achieved by aggressive exploitation of changing international conditions and dedication to improving their clients' competitiveness in international trade arenas. In large part because of the success the Japanese trading companies have achieved, several nations—including South Korea and Brazil—have tried to design similar firms. 25X1 25X1

The past few years, however, have not been good ones for Japan's trading firms. Their share of Japanese domestic and foreign sales is declining, and, reflecting the recent global recession, profits have fallen sharply. Some observers—notably in the US and Japanese press—have suggested that the trading firms have peaked. Many, for example, point out that the new high-technology companies leading Japan's growth today already have overseas marketing networks and as a result have little use for the trading houses. 25X1

We disagree; the doomsayers greatly underestimate the underlying strength of the large trading houses, primarily their ability to adjust. One or two may have to be merged into a stronger firm. The major houses, such as Mitsubishi and Mitsui, however, are branching out into third country trade and foreign investment projects that should improve their balance sheets. 25X1

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[redacted] 25X1

Most important, Tokyo believes these firms have a key role to play in Japan's future. The Ministry of International Trade and Industry, for instance, hopes to use the firms to help coordinate development efforts in the aerospace field. [redacted] 25X1 25X1

Although Tokyo and the trading houses have generally worked in tandem, we believe this link will weaken over time. As the companies expand their interests in foreign markets, their equities will probably shift away from a one-dimensional focus on Japan. Much of the overseas expansion is likely to be in the United States. [redacted] 25X1

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Japanese Trading Companies: Evolving Role in World Trade [redacted]

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Introduction

Japan's general trading companies [1] are among the world's largest multinational corporations. In 1982 their combined assets reached $87 billion and net sales of the nine largest trading companies totaled $350 billion on trade in over 20,000 different commodities. These firms accounted for more than half of all Japanese exports and imports; they also supplied much of Japan's domestic market and are expanding their role in third country sales (see table 1). [redacted]

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Evolution of Trading Companies

The general trading companies have evolved over the past century in concert with Japan's move from a preindustrial economy to the world's third-largest economic force. The nine general trading companies descend from the foreign trading arms of the giant commercial and industrial concerns—the *zaibatsu* (wealthy cliques) formed in the late 19th century. Economic historians generally agree that these foreign trade companies were fostered to:

- Reduce the near monopoly in Japanese trade held by foreigners in the 1870s.
- Develop overseas outlets to pay for imports of raw materials, industrial equipment, technology, and other goods for Japan's nascent industries.
- Allow manufacturers to concentrate on production while delegating marketing and supply functions to a core of experts. [redacted]

By the early 20th century, a few huge holding companies—vertically integrated and often under the control of a single family such as Mitsui, Mitsubishi, and Sumitomo—dominated Japanese foreign trade. For example, the Mitsui trading company controlled

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The Japanese Trading Company

The Japanese general trading companies in their simplest form act as the principal marketer and supplier for manufacturers, primarily within one industrial group. In the Japanese domestic market, they wholesale 20,000 different items, according to one study. Beyond this, however, they act as advisers to manufacturers on such issues as what and how much to produce. To retailers—particularly the smaller outlets—they offer financing and product information. [redacted]

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For most of Japan's modern industrial period they have been Japan's primary commercial representative abroad, seeking markets for exports and sources for critical raw materials. In doing so they have relied on the same techniques that enhanced their position domestically—a vast communications network, close ties to Japanese financial institutions, and a core of experts, either in particular products or markets. [redacted]

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25 percent of all exports in 1914. These holding companies contributed to Japan's growing military strength and militarism in the 1930s and 1940s. They and their major affiliates were dissolved by the Allies after 1945. Mitsubishi Shoji—a major trading house—was split into 140 separate units. The breakup of the huge trading companies gave the smaller but well-established trading firms, including C. Itoh and Company, Marubeni, and Nichimen the opportunity to expand. Following the end of the Allied Occupation in 1952, wide-ranging measures to spur exports, including financing, insurance, tax credits, as well as relaxation of the antitrust laws, allowed the old *zaibatsu* trading firms—Mitsubishi in 1954 and Mitsui in 1959—to reunite many of their former parts. [redacted]

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[1] In this paper, the nine largest trading companies will be referred to as general trading companies—the Japanese term *sogo shosha* means integrated or general trading company—to distinguish them from the multitude of more specialized enterprises engaging in foreign trade. In 1980 there were 12,128 foreign trade concerns, according to the Ministry of Finance; the vast majority were small, employing less than 10 persons. The general trading companies accounted for 45 percent of all assets of enterprises in foreign trade in 1980. [redacted]

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Table 1
Nine General Trading Companies

	Founded	Headquarters	Sales, Year Ending March 1983 (*million yen*)	1983 Offices			Percent of All Sales Derived From Trade		Total Employees
				Domestic	Overseas	Associates	1980	1983	
Mitsubishi Corporation	1950	Tokyo	14,885,454	NA	NA		56	63	9,793
Mitsui and Company	1947	Tokyo	14,147,368	50	153		51	62	9,735
C. Itoh and Company	1949	Osaka	12,490,220	16	10	22	52	55	7,978
Marubeni	1949	Osaka	11,631,385	19	8	26	59	65	8,199
Sumitomo Corporation	1919	Osaka	11,353,908	43	130		46	49	6,897
Nissho-Iwai	1928	Osaka	8,011,878	43	73		57	66	6,006
Toyo Menka	1920	Osaka	3,916,050	13	8		59	63	3,051
Kanematsu-Gosho	1889	Tokyo	3,450,759	7	84		49	51	2,697
Nichimer	1892	Osaka	3,358,833	11	47	34	66	71	3,257

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It is hard to underestimate the role these trading houses played in Japan's postwar export drive (see figure 1). In the late 1960s, they were the principal agents for Japanese textile and steel producers. Their aggressive export campaigns—particularly their willingness to cut prices to improve their position in foreign markets—helped precipitate several US-Japanese trade disputes.

Role in Industrial Groups

Today, general trading companies are at the heart of the seven major enterprise groups that dominate Japan's economy (see table 2):

- The Mitsubishi, Mitsui, and Sumitomo groups contain trading houses bearing their names.
- The Daichi Kangyo Bank group, Japan's second-largest industrial group, is helped by C. Itoh and Company, with Kanematsu-Gosho playing an important supporting role.
- Marubeni is the leader of the Fuyo group, while the Sanwa Bank group is headed by the trading firm Nissho-Iwai.
- Toyo Menka is the leader of the Tokai Bank group.

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The trading companies do not have as much power as the large banks within the groups, but banks and trading companies operate closely in establishing new ventures and organizing group projects (see figure 2). If the bank and trading house within a group agree on a project or policy, the other companies will undoubtedly follow suit.

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Figure 1
Net Sales, General Trading Companies, 1965-83

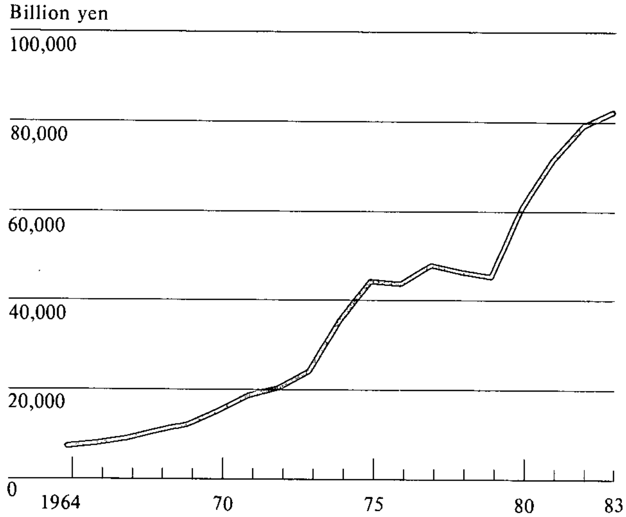

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Table 2
Group Association of General Trading Companies

Industrial Group	Trading Companies
Mitsubishi	Mitsubishi Corporation
Daichi Kangyo Bank	C. Itoh and Company [a], Kanematsu-Gosho [b]
Mitsui	Mitsui and Company
Fuyo	Marubeni
Sumitomo	Sumitomo Corporation
Sanwa Bank	Nissho-Iwai, Nichimen
Tokai Bank	Toyo Menka [c]

[a] C. Itoh gravitated away from Sumitomo group to DKB group, but also absorbed Ataka and Company in 1977—a Sumitomo group member.
[b] Kanamatu-Gosho belonged to Kangyo Bank Group and Nissho to Dai-Ichi Bank group before the banks merged in 1971. Major shareholder in Kanematsu-Gosho is Tokyo Bank.
[c] Toyo Menka also has close connections with Mitsui Group—separated from Mitsui and Company in 1920.

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Relations between the general trading companies and the other traders are frequently close. Although some major industrial firms such as Toyota Motors have successfully developed large export corporations to handle their products, many of the specialized trading companies—dealing in a narrow range of products—are closely related to the general trading houses either directly or through their group affiliation. For example, in addition to Mitsubishi Corporation, the Mitsubishi group includes such specialized trading firms as Tokyo Sangyo and Kinsho-Mataichi for machinery, Ryoden Trading and Kanagawa Electric for electrical appliances, and Meiwa Trading for chemicals. The combined sales of these six companies total about 6 percent of Mitsubishi's sales. They work closely with the general trading company in arranging export, third country, and domestic deals.

Forces of Change

Helped by their position in the groups, support from Tokyo, and an extensive communications network, the general trading companies continue to play a unique role of supplier, marketer, financer, merchant banker, and source of information for Japan. Nonetheless, the companies have had to adjust to significant change, in large part driven by the openness of the Japanese economy compared with the 1950s and 1960s. These changes have included:

- The rapid overseas expansion of Japanese manufacturers and banks, reducing their dependence on the trading companies.
- Soft demand in Japan for products usually supplied by the trading houses, such as iron ore, oil, and coal.
- Slack world markets for those exports normally handled by trading companies—steel, petrochemicals, textiles.
- Alternative sources of trade financing, particularly from foreign banks, available to Japanese companies.

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Table 3
Sales by Sector of Six Major Trading Companies

	Percent of Total Sales				Sales in 1982
	1971	1976	1981	1982	(*billion yen*)
Mitsubishi					
Domestic	57.3	47.2	41.6	38.9	5,711
Exports	16.2	17.0	17.6	18.8	2,762
Imports	22.3	28.5	32.9	33.3	4,887
Third country	4.2	7.3	7.8	9.0	1,326
Mitsui [a]					
Domestic	53.4	52.0	42.8	42.5	5,623
Exports	22.9	19.6	20.0	19.4	2,569
Imports	20.2	20.9	23.3	24.1	3,188
Third country	3.5	7.5	13.9	14.0	1,845
C. Itoh					
Domestic	58.4	52.7	46.0	43.5	5,362
Exports	15.1	19.9	20.6	18.7	2,307
Imports	20.1	20.2	22.6	23.2	2,859
Third country	6.3	7.2	10.8	14.7	1,808
Marubeni					
Domestic	59.7	44.2	37.6	36.0	4,160
Exports	19.3	26.4	26.0	27.1	3,131
Imports	18.3	18.5	19.2	18.9	2,183
Third country	2.7	10.9	17.2	18.0	2,074
Sumitomo					
Domestic	61.5	53.4	52.8	50.8	5,573
Exports	19.2	22.0	21.3	25.9	2,837
Imports	16.0	14.5	16.6	15.3	1,677
Third country	3.3	10.1	9.3	8.0	878
Nissho-Iwai					
Domestic	51.5	46.2	40.2	37.4	2,782
Exports	15.7	23.8	17.8	18.1	1,345
Imports	25.6	20.3	28.2	27.4	2,037
Third country	7.2	9.7	13.8	17.1	1,268

[a] Figures for the year ending 31 March, except for Mitsui, where the year ends 30 September except in 1982.

Source: Company reports.

Nowhere is the change more apparent than in the Japanese domestic sector. Roughly 40 to 50 percent of sales for the top six general trading companies still come from goods sold by producers to wholesalers or retailers within Japan. This share, however, has been declining. Nearly 60 percent of Mitsubishi sales were domestic in 1971; in 1982 these transactions made up only 39 percent. For the largest firms, only Sumitomo looked to domestic sales for more than 50 percent of turnover in 1982 (see table 3). 25X1

Part of this decline in domestic sales as a share of the total reflects the sharp increase in the value of foreign trade—particularly oil—in recent years. Another, however, is the slowdown in Japan's domestic economy. In 1971-75, for example, wholesale turnover increased at a 17-percent annual rate; since 1976 the rate has slowed to 6 percent. 25X1

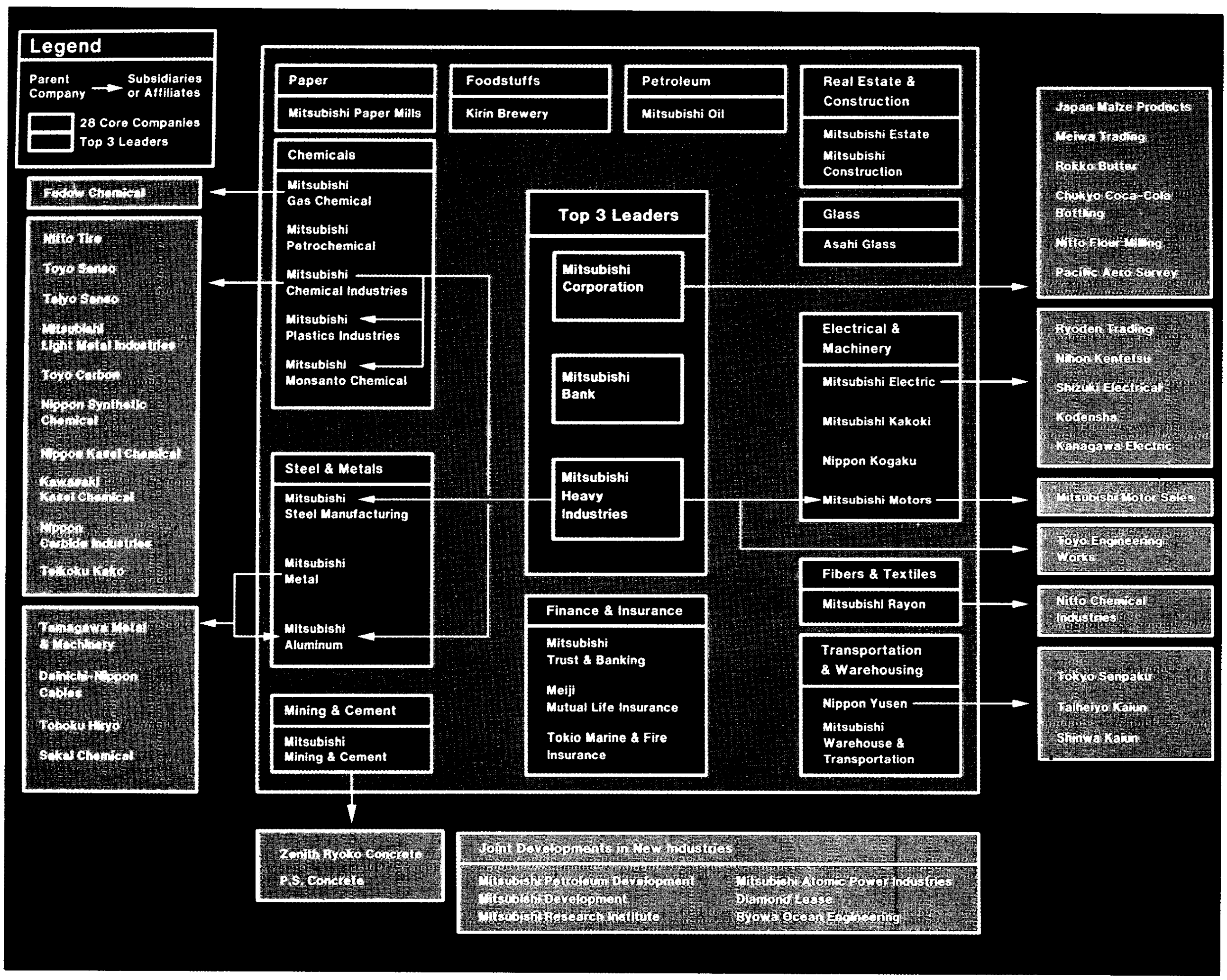
Diversification

Changes in the Japanese domestic market have helped push the companies to enter other sectors, including overseas investments, third country trade, and project development activities. In addition, the companies have shifted away from dependence on a few product lines such as steel (see figure 3). 25X1
in the early 1950s, Mitsui derived more 25X1
than half of its sales from foodstuffs and Sumitomo depended on metals for 62 percent of its sales. Today, no trader relies on one product area for more than one-third of sales. 25X1

Third Country Trade

One direction in which the companies have moved is to act as brokers in third country trade—moving goods between countries other than Japan. These firms have a clear advantage in this area with their vast communications networks and their links to banks that provide trade financing (see figure 4). Reflecting these advantages, the trading houses now sell Indonesian timber to Western Europe, Romanian wine in Southeast Asia, and US machinery to Eastern Europe. 25X1 25X1

Figure 2
The Mitsubishi Group



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Oil and the Trading Companies

Trading in crude oil became one of the most important sectors of trading company activity in the late 1970s as the traders helped bridge the gap that resulted from severe cuts in exports to Japan by the major international oil companies during the Iranian crisis. [redacted] *Tokyo's restrictions on foreign firms dealing in oil prior to 1978— limiting ownership of refining and distribution networks to Japanese-owned firms—helped convince the international firms to ship their scarce supply of oil elsewhere.* [redacted]

Trading companies initially relied on spot deals to offset cutbacks by the oil companies, but they soon concluded longer term agreements with the state oil corporations of producing countries. Direct deals rose to 45 percent of oil imports in 1980, compared with 21 percent in 1978. Such deals now account for over half the crude oil handled by the nine general trading companies [redacted] *(see table 4):*

- *The general trading companies handle the bulk of crude supplies arranged directly between producers and the independent Japanese refiners, which for the most part rely on the general trading companies for financial and organizational resources.*

- *They are also involved in the government-to-government deals, where the producing state and Japanese officials negotiate long-term contracts. Such arrangements are in effect in Mexico, China, Peru, Iraq, and Indonesia.* [redacted]

The firms have been complementing downstream oil operations—importing, refining, distributing, bunkering, and stockpiling—by securing their own supplies of crude by investing in exploration and production, both at home and abroad. However, the trading houses have also kept their ties to the major international oil companies. Mitsui is loosely tied to Exxon and Mobil and Mitsubishi to Shell and Getty. Getty owns half of Mitsubishi Oil Company and is one of 16 independents supplying crude oil, mainly Indonesian, to Japan. Almost 50 percent of the crude handled by Mitsubishi Corporation came via the international majors in 1981. [redacted]

Trading companies are active in other energy product areas such as rapidly growing imports of liquefied natural gas (LNG), mainly from Indonesia. Holdings in joint liquefication/marketing consortia in Indonesia involve Nissho-Iwai—with a 10-percent interest—and six other general trading companies. Mitsubishi owns one-third of a major project in Brunei, and Mitsui has major holdings in Abu Dhabi Gas Liquefication Company. [redacted]

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[redacted] the value of third country transactions by the nine leading companies reached $60 billion in 1981, or about 3.1 percent of world exports. The trading houses posted sales gains in third country trade of 52 percent in 1979, 33 percent in 1980, and 23 percent in 1981 despite a general slackening of world trade. These transactions have increased steadily since the early 1970s. In 1971 third country trade accounted for only 4 percent of all sales for Mitsubishi Corporation; in 1982 the share was 9 percent. Marubeni was the largest third country trader, with 18 percent of all sales from third country trade in 1982. [redacted]

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Table 4
Japan: Crude Oil Imports by Supplier

Thousand barrels per day

	1978		1979		1980		1982		March 1983	
	Volume	Percent Share	Volume	Percent Share	Volume	Percent Share	Volume	Percent Share	Volume	Percent Share
Major eight oil companies	3,064	65.8	2,728	56.4	1,968	44.5	1,457	40.7	1,357	33.3
Independent oil companies	168	3.6	111	2.3	123	2.8	131	3.7	166	4.1
Direct deal/government-to-government arrangements [a]	963	20.7	1,531	31.7	1,980	44.9	1,669	46.7	2,294	56.4
Japanese producers overseas [a]	460	9.9	463	9.6	343	7.8	319	8.9	251	6.2
Total	**4,655**	**100.0**	**4,833**	**100.0**	**4,414**	**100.0**	**3,576**	**100.0**	**4,068**	**100.0**

[a] Trading companies play leading role in these transactions.
Source: Oil Industry Reports.

[redacted] 25X1

Plant Exports

Another direction the companies have tried—with less success—has been the export of complete industrial plants. In many of these cases, the firms put together a package involving the machinery, spare parts, training, and financing. In 1983, plant sales accounted for almost 24 percent of all exports handled by Japan's leading traders. The leader was Mitsui and Company, with sales of nearly $3 billion, according to an industry source. [redacted]

Profits, however, have not been as high as the companies had expected. According to press [redacted] sources, faced with competition from other developed countries and the long leadtime required, Japanese trading companies are no longer making as extensive an effort as in the past to expand sales of large plants. Another factor has been the LDC debt problem. Traders have been leery of extending large loans, and the LDCs have been scaling back development projects. In 1981 C. Itoh deemphasized this effort following heavy losses in Algeria and China. In announcing their cutbacks, other firms have cited the economic difficulties in Eastern Europe, especially Poland. For all of the trading houses, new orders for plant exports to oil-producing countries were down sharply in 1982, as Saudi Arabia, Qatar, and Venezuela adjusted to lower oil revenues. [redacted]

Overseas Investment [2]

Trading companies have played a key role in increasing Japanese investments overseas. Five of the top seven companies involved in overseas investment are trading companies; only Kanematsu-Gosho and Nichimen are not among the top 20 Japanese overseas investors (see table 5). General trading companies accounted for more than 40 percent of overseas investments in the 1970s and early 1980s. In the past these outlays have been in: 25X1

- Large-scale resource and energy-related industrial projects.
- The relocation of Japan's basic industries such as aluminum smelting, petrochemicals, pulp and paper, and energy-related industries. [redacted]

[redacted]

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Figure 3
Sales by Product Area, 1961 and 1983

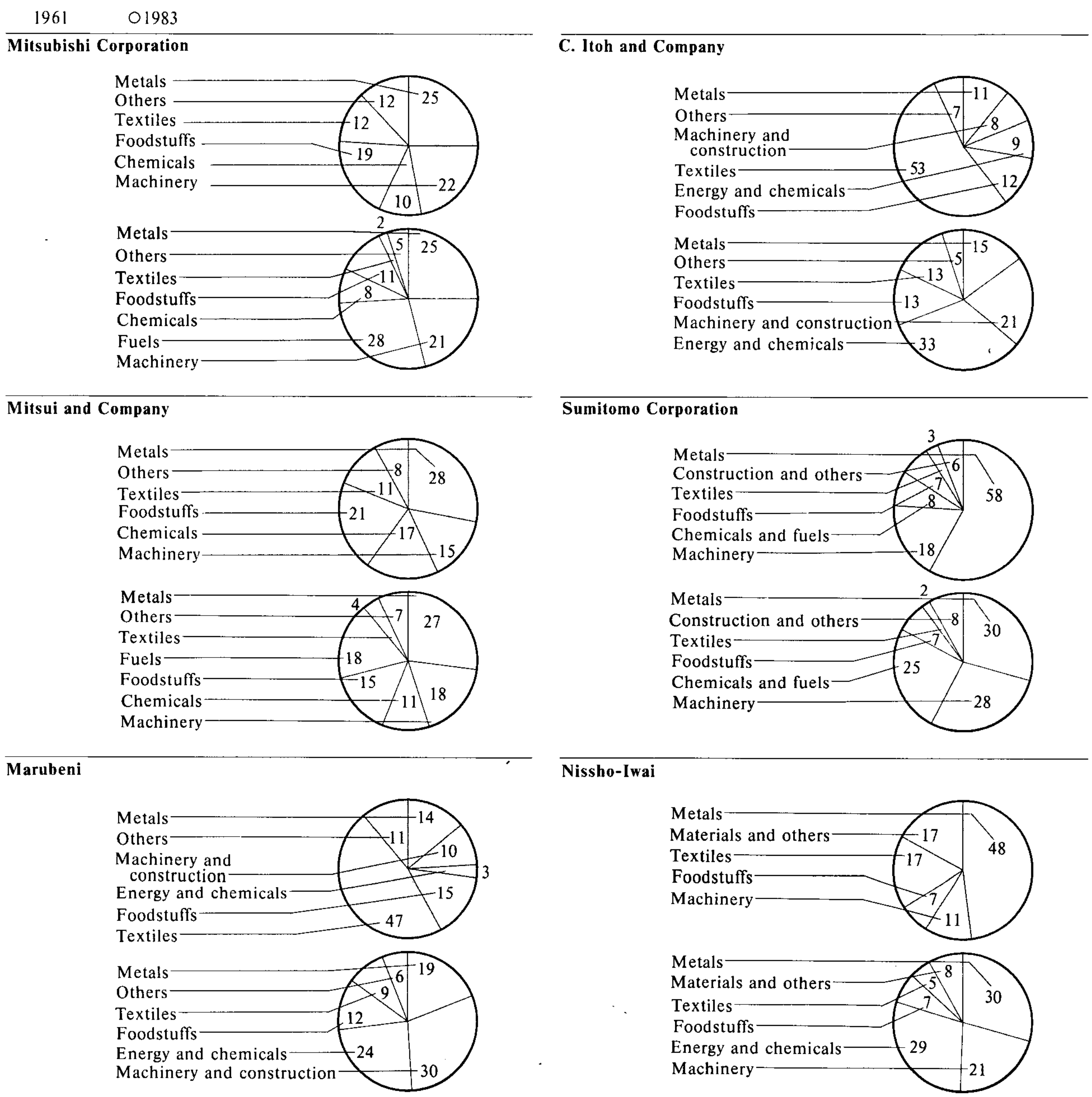

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Table 5
Top 20 Japanese Firms in Overseas Investment as of March 1982

Million US $

Ranking	Name of Firms	Outstanding Balance of Investment [a]
1	Mitsui and Company	922.9
2	Mitsubishi Corporation	879.5
3	Iran Chemical Development	792.0
4	C. Itoh and Company	518.5
5	Nissan Motor	441.8
6	Marubeni Corporation	439.0
7	Sumitomo Corporation	390.0
8	Sanko Steamship	318.5
9	Nippon Asahan Aluminum	312.4
10	Matsushita Electric Industry	303.6
11	Toshiba Corporation	290.8
12	Japan Leasing	283.5
13	Kawasaki Steel	266.3
14	Honda Motor	258.6
15	Toyo Menka	237.3
16	Sony	222.9
17	Nissho Iwai Corporation	221.3
18	Kawasaki Heavy Industries	217.3
19	Toray Industries	215.7
20	Fujitsu	205.6

[a] Calculated based on the 1982 average exchange rate of 249 yen to the dollar. Figures are based on company reports of overseas investments and not official data.

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In the past few years the trading houses have become more active in establishing overseas manufacturing enterprises. For example, Mitsubishi Corporation recently expanded its plastic business in the United States by purchases of two polyvinyl chloride pipe plants in a joint venture with its US subsidiary. The plants will service automobile and electric product makers and the market for agricultural irrigation pipes. According to press reports, Mitsubishi hopes the new venture will make up for flagging chemical exports from Japan. With their extensive contacts overseas, the trading houses are also assisting small and medium-size Japanese manufacturing firms find joint venture partners.

Hard Times

Despite these diversification efforts, the general trading companies have found the past few years difficult. Last year was particularly harsh; revenue and profits dropped substantially for the first time, and sales growth was below the rate of inflation. The worldwide recession, high interest rates in the United States, the financial crises in developing countries, and sluggish growth in the domestic market all contributed to this drop. For the first time since it was established in

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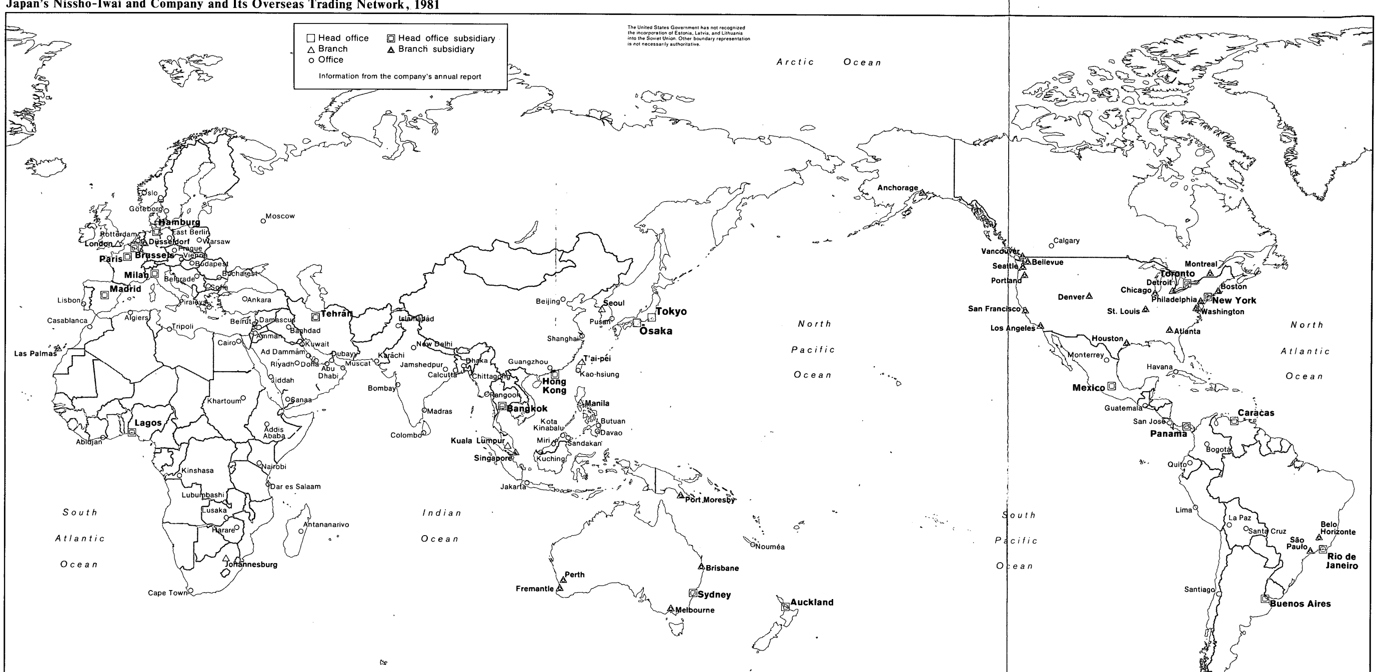
Figure 4
Japan's Nissho-Iwai and Company and Its Overseas Trading Network, 1981



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Ataka—Anatomy of a Failure

In 1977 Ataka and Company—then Japan's tenth-largest trading company—collapsed and, with the assistance of the Sumitomo Bank, was absorbed by C. Itoh. Ataka—which had emerged as a general trading company from a background as a specialized steel trader—sought to diversify into other areas. To the company's ultimate ruin, management—particularly the home headquarters—failed to fully supervise the efforts.

In the early 1970s Ataka's US subsidiary agreed to act as the agent for the Newfoundland Refining Corporation in Canada to buy crude oil from British Petroleum in the Middle East and to deliver it to Newfoundland for processing. In addition to letters of credit from Japanese banks, Ataka also provided Newfoundland Refining Corporation with a $42 million loan without collateral, not repayable until 1985.

In addition, the letters of credit issued by the banks had provided no guarantee that payments would actually be made. When the flow of oil from the Middle East was cut off, Ataka piled up massive debts—initially covered by its US subsidiary by drawing on its credit in US banks. C. Itoh, with the help of the Sumitomo Bank, eventually settled the outstanding bills.

1947, Mitsui and Company, Limited cut employee salaries and did not pay dividends. The consolidated net profit of Mitsubishi Corporation in the year ending March 1983 dropped 25 percent, the second straight year of decline

The lower ranking trading companies, Toyo Menka Kaisha, Limited; Nichimen Company, Limited; and Kanematsu-Gosho, Limited are in serious difficulty; speculation in the press is that at least one will fail. Japanese press reports also cite Kanematsu-Gosho, Marubeni, Nichimen, and Nissho-Iwai as potential merger partners. This would not be a new pattern for the major trading companies. A number of the big nine are products of such mergers—Nissho joined with Iwai, and Kanematsu absorbed Gosho in the mid-1960s, while C. Itoh and Company absorbed the virtually bankrupt trading firm Ataka in 1977.

In the short run, however, the firms are attempting to deal with the problems by reducing overhead expenses. C. Itoh transferred 15 percent of its administrative employees to the operational sector in 1981 and Mitsubishi has imposed an early retirement system. Despite the need the companies perceive to attract employees from increasingly technical backgrounds to assist in the development of their new sections, the number of new graduates hired from universities has been reduced. 25X1

Prospects 25X1

The Japanese and US media have recently focused on the problems facing the trading firms, suggesting that their position in Japan has declined sharply and that this trend will continue. Although the trading houses have increased their efforts to enter new industries such as biotechnology and optical fibers, many observers believe these industries are not likely to be of much help in the short run. 25X1

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We believe these reports are greatly overstated and ignore the companies' underlying strengths. The size and scope of the companies' activities should give them the resources to weather short-term problems, in part brought on by the extended global recession. A revival in world trade should improve balance sheets, and we believe the companies have laid the groundwork for the future by strengthening their overseas networks of offices and subsidiaries and attempting to 25X1 improve their position in third country trade and overseas investment. 25X1

Perhaps more importantly, the Japanese Government believes these firms have an important future role to play in developing industries Tokyo considers vital. According to press reports, the Ministry of International 25X1 Trade and Industry is urging six leading general trading companies to participate in the new 150-seat jet civilian aircraft project in cooperation with three leading Japanese aircraft makers and Boeing of the United States. In part, MITI hopes the trading companies' international marketing network will make the project a success. 25X1

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This link between government policy and trading company activities has always been strong. Tokyo has tried to keep the trading companies from working at cross-purposes with Japanese foreign economic policy by a careful mix of controls, persuasion, and incentives:

- Tokyo made liberal use of subsidized export credits to assist the trading firms in expanding sales in the Middle East and in funding raw material development projects in the United States and in Southeast Asia in the 1970s.
- To help Japan's balance of payments in the mid-1970s, the government induced the trading companies to borrow abroad by relaxing restrictions on capital inflows.

[redacted]

MITI—which played a leading role in assisting the Japanese trading companies to develop their position in Japan and in world trade—came under increased pressure in 1974 from antitrust groups such as Japan's Fair Trade Commission to reduce the influence of the trading companies in the Japanese economy. For the most part, the Ministry of International Trade and Industry has been able to blunt domestic criticism of the trading companies by citing their importance in maintaining Japan's competitive position. To placate the critics, Tokyo has limited the close ties between big banks and trading houses by establishing loan ceilings. [redacted]

Trading companies have sometimes found themselves caught between Tokyo's policies and what they perceive to be their own best interest. [redacted]

[redacted] 25X1

Nonetheless, the government and trading firms in general have held similar foreign policy goals and for the most part manage to work in tandem. [redacted] 25X1

[redacted] 25X1

Implications for the United States
How the trading firms evolve will have a significant impact on the United States. Although their position in the Japanese domestic market will probably continue to slip, the trading houses still will have the potential to spur imports or act as a trade barrier. As their investments in the United States increase, the trading companies will be inclined to move more US goods to Japan and other countries. On the negative side, however, the trading houses are intimately connected to many small Japanese firms which have strongly resisted the lowering of trade restrictions. [redacted] 25X1 25X1

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More importantly, as these firms continue their thrust into more complex international transactions, their relationship with the Japanese Government will change and perhaps weaken. We believe the trading firms will find it more difficult to identify as closely as they have with Japanese foreign policy goals. [redacted] 25X1 25X1 25X1

We believe the present trend toward expanding general trading company operations in the United States will continue. The trading houses place particular 25X1

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emphasis on the United States as the most stable and lucrative market for investment and development. The US subsidiary of Mitsubishi Corporation has grown from $7.8 billion in total assets in 1977 to $13.9 billion in 1983. The US subsidiary of Mitsui and Company is already the fourth-largest exporter of US goods. 25X1

At the same time, joint ventures linking US-based firms in Japan with the trading houses are expanding. In September 1982 IBM Japan, Limited and Kanematsu-Gosho formed a joint venture to market office equipment in Japan. According to press reports, in March 1983 IBM Japan and Mitsubishi Corporation agreed to work together on a satellite communication system for business services in Japan. 25X1

Reflecting their already large and probably growing equities in the United States, the trading firms may lean more toward the United States in disagreements between Washington and Tokyo, as they did in the recent issue of sanctions against the Soviets. On the other hand, these companies' growing role in third country markets could make them more difficult to deal with on some issues. 25X1

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